USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

Voluntary - Public

Clearance Office: Office of Global Analysis (OGA)

Date: 5/21/2009

GAIN Report Number: CH9047

China - Peoples Republic of

Post: Beijing

Annual Report

Report Categories:

Tomatoes and Products

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Report Highlights:

China's MY 2009/10 production of tomato and tomato products is forecast at a record 39.5 MMT, with processing tomatoes accounting for nearly 20 percent of total production. China's tomato paste production is expected to reach 1.1 MMT in MY 2009/10, thanks to acreage expansion in Xinjiang and Inner Mongolia. China's tomato paste exports are forecast at 800,000 tons in MY 2009/10, a six-percent increase from the estimated 750,000 tons in MY2008/09, driven by the increase in domestic production.

Executive Summary:

China's total fresh tomato production is forecast at a record 39.5 million metric tons (MMT) in marketing year 2009/10 (MY July-June), mainly attributed to growth in the tomato processing sector. China's industry is expecting a record 7.6 MMT of processing tomato production in MY 2009/10, a 20-percent increase from the 6.4 MMT in MY 2008/09, thanks to strong crop returns in 2008. Assuming normal weather conditions continue through the end of the marketing year, China's tomato paste production is expected to reach 1.1 MMT in MY 2009/10. This record production is mainly due to acreage expansion in the major producing provinces of Xinjiang and Inner Mongolia.

China's tomato paste (H.S. code 200290) exports are forecast to reach 800,000 tons in MY 2009/10, a six-percent increase from the estimated 750,000 tons in MY 2008/2009, driven by the increase in domestic production. The key phrase heard among China's tomato paste traders in 2008 is price. Prices have soared as a result of production decline in Europe. China's fresh tomato consumption per capita is about 40 1bs (18 kilograms) per year. Processed tomato

consumption is extremely low at present, but the local industry is expecting an annual 15 percent increase in domestic processed tomato consumption over the next few years, in tandem with the rapid expansion of western style restaurants. U.S. tomato products are most competitive in major and mid-sized coastal cities, high-end consumer markets, western supermarkets, and the value-added food processing sector.

General Information:

Production:

Record production forecast for China's tomato and tomato products

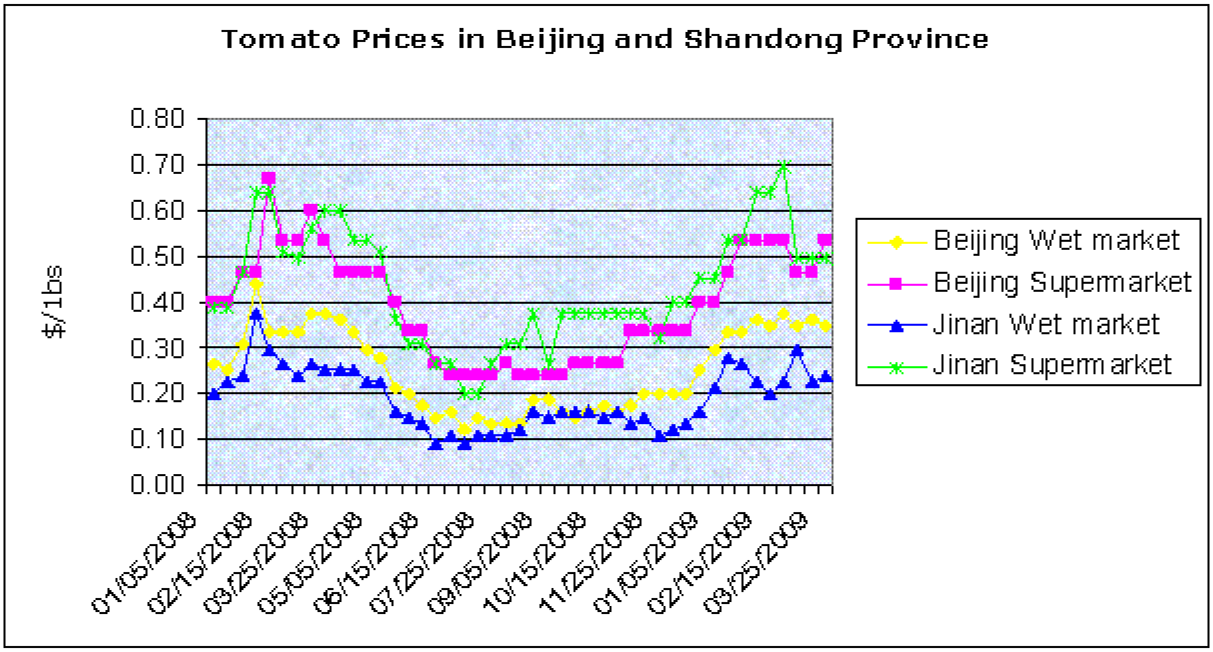
China's total fresh tomato production is forecast at 39.5 MMT in MY 2009/10, a two-percent increase from the estimated 38.7 MMT in MY 2008/09. This is mainly attributed to the growth in processing tomato production. Local industry experts are anticipating a record 7.6 MMT of processing tomato production in MY 2009/10, a 20-percent increase from the 6.4 MMT produced in MY 2008/09, thanks to good returns in 2008. Tomato production for fresh consumption will not vary significantly from previous years because of stable demand. China's domestic consumption of fresh tomatoes is estimated at around 24 MMT.

Industry sources indicate that China's tomato paste production will reach a record 1.1 MMT in MY 2009/10, assuming normal weather conditions continue through the end of this marketing year. China's total tomato paste production capacity is estimated at 1.6 MMT. Availability of raw material is the only factor limiting production. The industry is optimistic about processing tomato production in MY 2009/10, because famers in Xinjiang are willing to expand tomato acreage in response to good returns from the 2008 crop. Cotton and tomatoes are the two major cash crops in Xinjiang Province. Strong tomato returns when compared with those from cotton in 2008 encouraged some cotton farmers to shift to tomato production in the new season. According to data from the National Development and Reform Commission, Xinjiang cotton farmers' return in 2007 was $1,070/ha (7,290 RMB/ha), while industry sources indicated that return on processing tomatoes could be as high as $2,200/ha (15,000 RMB/ha).

Tomatoes are planted in all provinces and available year round

China's tomato acreage is forecast at 900,000 hectares in MY 2009/10. Fresh tomatoes are produced in all Chinese provinces with Shandong, Xinjiang, Hebei, and Henan Provinces being the major producing provinces. These four provinces account for over half of China's total production. The top processing tomato-producing provinces are Xinjiang, Inner Mongolia, and Gansu Provinces and contribute over 90 percent of total processing tomato production. Fresh tomatoes are available in China's market year round thanks to the off-season tomato production in greenhouses. Industry sources revealed that greenhouse production now accounts for over 50 percent of total tomato production, and supplies the domestic market from October – June, when tomatoes in the open field are not available. Peak season for fresh tomato consumption in China runs from July - September, when open field tomatoes are readily available in every province. Chinese consumers believe that in-season products are healthier than off-season products, and the price is usually low.

Figure 1. Tomato prices in Beijing and Shandong Province January 2008-March 2009



(Source: China Price Information Network by National Development and Reform Commission)

The soaring price of tomato paste in 2008 resulted from Europe's production decline
China Customs Statistics revealed that the average price of China's exported tomato paste increased 69 percent to $1,130/ton in the second half of 2008 over the same period in 2007, as a result of production decline in Europe. Many European processing tomato farmers shifted to other crops in response to lower EU tomato subsidies. Local media reported that European farmers received a subsidy of 34.5 euro/ton for processing tomato production before 2008. The average subsidy decreased to 16 euro/ton in 2008, when the traditional production subsidy was replaced by area payments. China's processing industry viewed this European policy change as an opportunity for increased export market share (see Trade section). There are three major players in tomato paste production: the United States, Europe (mainly Italy, Spain, and Greece), and China. U.S. production remains stable and is mainly reserved for domestic consumption; Europe's production is declining for both the domestic and export markets; while China's production is increasing each year, and becoming more export-oriented. As one of the remaining two major tomato paste exporters, Europe's declining production is good news for China's tomato paste producers.

Chinese exporters worry soaring prices may bring increased competition
In spite of this seemingly positive news, China's leading producer expressed concern that current high prices could bring the resurgence of Europe's small factories, and that the high profit margin would encourage rapid expansion of local production capacity. According to industry sources, the ideal price for China's tomato paste is $800-900/ton, as opposed to the current $1,100/ton. The current $1,100/ton could encourage some smaller EU factories to get back into the market, while Chinese producers can maintain reasonable profit margin at the $800-900/ton price because of their lower costs. Industry sources indicated that in 2008, about 30-40 small tomato processing factories were newly built in Xinjiang, Inner Mongolia, and Gansu provinces. Although China's tomato processing sector is highly concentrated, with the top two producers accounting for more than 65 percent of total production, small processors bring strong competition in raw material purchasing. Availability of raw materials is the major constraint limiting China's tomato paste production.

Tomatoes for processing are planted in April and harvested in July. Tomato paste is produced during mid July to mid September. Although some U.S. and Japanese tomato varieties have been introduced in China to help prolong the harvest season, the highly concentrated supply over a very short period of time presents a spoilage problem for China's processors. The processing lines can not digest all the available supply during peak season. After peak season's end, the processing machinery sits idle for more than 10 months. Industry has highlighted this waste of raw materials and machinery as limiting China's tomato paste production. The leading processors have started to develop their own planting bases to control variety diversity, prolong the harvest season, and promote machine harvesting.

High density paste dominates production in China to save freight

Industry sources indicate that tomato soluble solids (TSS) of 36-38 percent accounts for about 70 percent of total production, and TSS 28-30 percent account for the other 30 percent. Most of China's bulk packed tomato paste is exported and reprocessed into small package paste, low density paste, sauce, or ketchup. High density paste can save freight, and this is a major reason why TSS 36-38 dominates China's production. This situation is expected to slowly change as more bulk packed tomato paste is expected to go to deep-processing factories and be converted into value-added products with higher returns to producers. For example, canned tomato paste with TSS at 20-22 percent is priced at $0.44/198g (3 RMB/198g) in a Beijing supermarket, equaling $2,200/ton; while the record high price for exported tomato paste with TSS at 36-38 is $1,300/ton.

Consumption:

Fresh tomatoes are consumed both as a vegetable and as a fruit in China

China's per capita consumption of fresh tomatoes is around 40 1bs (18 kilograms) per year. The second and third quarters of each calendar year are the peak season for fresh tomato consumption, when open field tomatoes are both available and low-priced. Chinese consume fresh tomatoes both as a vegetable and as a fruit. Fruit tomatoes usually have a combined sweet and tart taste and are generally more attractive looking. They typically have a smooth skin, round shape, and a pinkish color. Vegetable tomatoes are usually higher in acid than fruit tomatoes. Consumers in China's Northern provinces consume more fresh tomatoes than the south, mainly because of traditional dietary habits.

Processed tomato consumption is low, but expected to increase rapidly

China's per capita consumption of processed tomato products is extremely low – less than 0.2 lbs (0.1 kilograms) per year. This is mainly because of a strong preference for fresh products in China. Most Chinese consumers believe that fresh fruits and vegetables are more healthful than processed products, and contain fewer additives. Recent food safety scandals in China have made consumers more cautious when making purchasing decisions. This is one of the major reasons for the low consumption of processed tomatoes, especially because fresh tomatoes are available year round.

The industry, however, is anticipating an annual 15 percent increase of domestic processed tomato consumption over the next years, in tandem with the rapid expansion of western food restaurants. Local media reports have focused on education, and as a result, more and more consumers are beginning to recognize the healthy function of tomato products. In addition, studies suggest that processed tomatoes provide more lycopene than fresh tomatoes. For example, a half-cup of tomato sauce has as much lycopene as five medium-sized fresh tomatoes. Tomato sauce, ketchup, canned tomato paste, and small bag-packed tomato paste are major processed tomato products in China's market. Market intelligence shows that Shanghai, Tianjin, and the Northwest area of China, including Xinjiang, Inner Mongolia, Gansu, and Ningxia provinces have the highest per capita processed tomato consumption.

Trade:

China's tomato paste (H.S. code 200290) exports are forecast at 800,000 tons in MY 2009/10, a six-percent increase from the estimated 750,000 tons in MY 2008/2009, driven by the increase in domestic production. Prices are expected to drop 15-20 percent to $950-1000/ton, in response to this production increase. Between the months of July 2008 to March 2009, China exported 603,380 tons of tomato paste, a 13-percent decrease from the same period in the previous marketing year. Industry attributes the decline to the increase of U.S. tomato paste exports. From July 2008-February 2009, the United States exported 221,776 tons of tomato paste, an increase from 117,944 tons during the same period previous year.

China's export markets for tomato paste are diversifying

Italy, Russia, and Japan have historically been the top three buyers of China's tomato paste. However, their share is declining as a result of new emerging markets, such as Nigeria, the Philippines, and Ukraine. Tianjin is the largest export port for tomato paste, and more than 80 percent of China's tomato paste exports were shipped from Tianjin in 2008. The table below lists China's top buyers of tomato paste through 2008.

Table 1. Chinese tomato paste exports, 2006-2008

metric tons

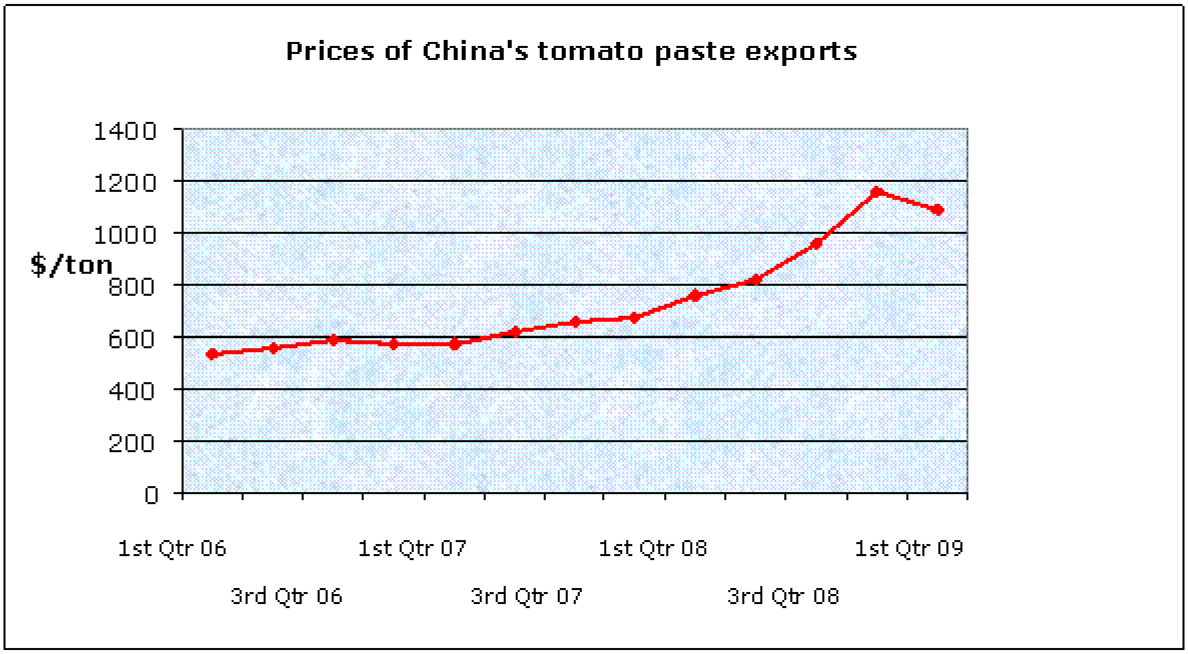
Countries	2006	2007	2008	07/08 change
Italy	63,274	122,324	90,663	-26%
Russia	82,378	87,925	83,441	-5%
Japan	47,464	55,724	47,863	-14%
Nigeria	7,829	29,016	39,554	36%
Ghana	35,959	41,150	39,507	-4%
United Arab Emirates	36,547	37,177	35,119	-5%
Saudi Arabia	24,744	24,543	28,760	17%
Philippines	10,397	15,999	26,487	66%
Ukraine	13,069	12,686	22,166	75%
Germany	7,047	15,110	21,192	40%
United States	9,871	9,134	2,631	-71%
Others	294,280	399,496	381,130	-5%
Total	632,859	850,285	818,512	-4%

(Source: World Trade Atlas)

Europe's subsidy reduction resulted in EU tomato paste production decline

China Customs Statistics reveal that the average price of China's exported tomato paste reached $1,130/ton during the second half of 2008, a 69-percent increase from the same period in 2007, and a 92-percent increase over the same period in 2006. The high international price is attributed to declining production in Europe as a result of the subsidy reduction there. According to a report by the Agricultural Economics Research Institute (LEI, a part of Wageningen University and Research Center), the processing tomato sector is one of most heavily subsidized sectors in Europe's primary production of fruit and vegetables. The previous production subsidy equals approximately 50 percent of producer turnover. (For more information, please refer to link below for the full text of the report: *Peeling Tomato Paste Subsidies: The Impact of a Revision of the CMO for Processing Tomatoes on European Horticulture* http://www.lei.dlo.nl/publicaties/PDF/2007/6_xxx/6_07_01.pdf).

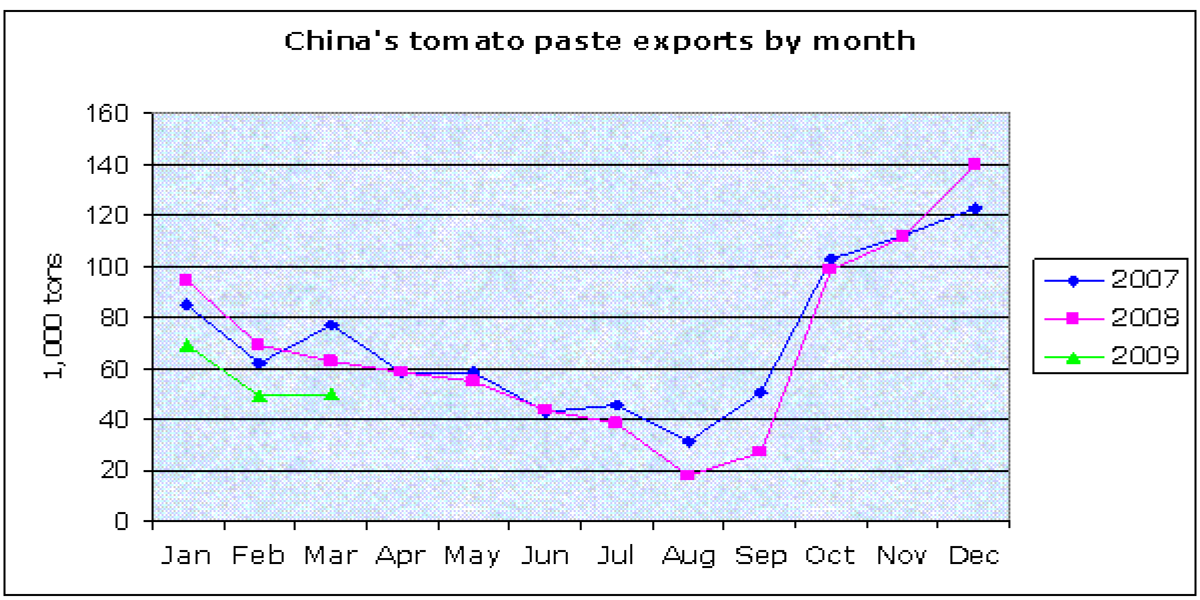
Figure 2. Prices of China's tomato paste exports 2006-2008



(Source: China Customs)

China's tomato paste trade continues year-round. The months of heaviest flow are October to December, after the harvest season. Industry estimates that stocks will remain at 80,000 tons by the end of the MY 2008/09. The figure below describes China's tomato paste exports by month.

Figure 3: China's tomato paste exports by month 2007-2008



(Source: World Trade Atlas)

The United States dominates China's tomato paste imports

China is also a small tomato paste importer. In CY 2008, China imported 1,798 tons of tomato paste, an 11-percent increase from CY 2007. The United States is the largest supplier of China's imported tomato paste, accounting for 59 percent of CY 2008 total imports. Comparing to the market share in previous years, however, the percentage is declining: 81 percent in CY 2006, 66 percent in CY 2007 and 59 percent in CY 2008. Meanwhile, "imports from China" [1] increased from 11 tons in CY 2006 to 545 tons in CY 2008. Tianjin and Shanghai are the two major import ports of tomato paste, and receive about 80 percent of total imports.

Fresh tomato exports are small but increasing

China's fresh tomato (H.S. code 070200) exports are expected to increase steadily, driven by demand from neighboring countries. China exported 116,675 tons of fresh tomatoes in CY 2008, of which more than 60 percent was shipped to Russia. The northern cities of Harbin and Manzhouli border Russia and also serve as the largest export ports of China's fresh tomatoes. Considering China produced more than 38 million tons of fresh tomatoes in MY2008/09, exports are relatively small. FAS/China believes this can be attributed to two major factors: residue issues and the lack of a seamless cold china. Many of China's producers cannot meet importing country MRL limts for certain pesticide residues on fresh tomatoes. For those producers that can meet import standards, the lack of cold chain and adequate packaging to prevent spoilage remain a challenge. China does not currently grant market access for fresh tomato from any country.

China completed its WTO accession tariff reductions for tomatoes and tomato products in 2005. There are no changes in the tomato and tomato products' tariff schedule.

Table 2. Tomato and Tomato Products Import Tariff and VAT Rates for 2009

H.S. Code	Description	**Tariff**	**VAT**	**Export Drawback**
070200	Tomatoes, fresh or chilled	13	13	5
20021010	Tomatoes, prepared or preserved, whole or in pieces in airtight containers	19	17	13
20021090	Tomatoes, prepared or preserved, whole or in pieces, other	25	17	13
20029010	Tomatoes, prepared or preserved, paste, in airtight containers	20	17	13
20029090	Tomatoes, Prepared or Preserved, Other	18	17	13
21032000	Tomato ketchup and other tomato sauces	15	17	13

(Source: China Customs)

[1] China's General Administration of Customs defines "the imports of China" as re-import of China-origin products. Total value of China's re-import stood at $92 billion in 2008. China's re-import has been expanded rapidly in the past three years, driven by the country's export incentive policy, increasing export rebates, and favorable processing trade policy. As for tomato paste, a Xinjiang processor A exports paste to a Hong Kong trader B, B either re-processes or not, and then exports to China. In this case, the imports is calculated as "imports from China", not "imports from Hong Kong".

Marketing:

Major buyers of tomato products: HRI sector, fast food restaurants, and supermarkets

There are three major buyer groups for processed tomato products in China: the hotel, restaurant, and institution (HRI) sector; fast food outlets – especially KFC and McDonalds; and supermarkets. The HRI sector is the major buyer of small packaged tomato paste, usually used for cooking, while they also buy tomato sauce and ketchup, usually for consumer's direct consumption in the restaurant. Most HRIs prefer to source a variety of condiments, including tomato paste and sauce, from one or two suppliers to keep management to a minimum. Therefore, a strong distribution network to reach HRI sourcing is vital in China's market.

According to Post's market intelligence, KFC and McDonalds have fixed suppliers like Heinz and McCormick. Industry indicates that it is very difficult for other suppliers to enter this market, since KFC and McDonalds have very strict quality and quantity requirements. Other medium and small western food restaurants represent good opportunities for new suppliers in the market, such as pizza and sandwich shops.

Supermarkets are the last stop before tomato products reach end consumers. If your marketing target is individual consumer, the supermarket is your first choice. Local media reports indicate that Shanghai residents consume both tomato paste and sauce; whereas Guangzhou and Beijing residents prefer tomato sauce; Tianjin consumers prefer small package sizes (usually 75 grams) of tomato paste; and in China's northwest, residents also consume small package sized tomato paste.

New products and more convenient packaging could lead to successful marketing

Supermarket visits in Beijing suggest that the available options of processed tomato products are very limited. While there are six unique brands, there are only three products: bottled tomato sauce (397 grams); canned tomato paste (198 grams); and bag-package tomato paste (75 grams) (see photo). Post believes that new, unique products and convenient packaging could lead to increased sales. For example, developing products with different taste for different-aged consumers; multi-seal packaging would also make products stand out, as consumers could more easily store after opening.

High-end markets represent opportunities for U.S. tomato products

The United States cannot compete with China's tomato products in price, but rather in quality and reputation. To increase market share of tomatoes and products in China, U.S. exporters and traders should focus on educating Chinese consumers on the health functions of tomato and tomato products, conducting seminars on how to include tomatoes in daily menus, and improving presentation and packaging designs to appeal to Chinese consumer taste. Due to their superior quality and good reputation, U.S. tomato products are most competitive in major and mid-sized coastal cities (Beijing, Dalian, Qingdao, Shenzhen, Guangzhou, and Shanghai), high-end consumer markets, western supermarkets, and value-added food processing sectors.

Production, Supply and Demand Data Statistics :

Table 3. Fresh Tomatoes PS&D Table

PSD Table						
Country	**China, Peoples Republic of**					
Commodity	**Fresh Tomatoes**				(HA)(MT)	
	2007	Revised	2008	Estimate	2009	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		07/2007		07/2008		07/2009
Plnt For Fresh Consump	0	773000	0	776000	0	808000
Plnt For Processing	0	75000	0	79000	0	92000
TOTAL Area Planted	0	848000	0	855000	0	900000
Harv. For Fresh Cons.	0	773000	0	776000	0	808000
Harv. For Processing	0	75000	0	79000	0	92000
TOTAL Area Harvested	0	848000	0	855000	0	900000
Fresh Sale Production	0	30900000	0	31000000	0	31900000
Processing Production	0	5800000	0	6400000	0	7600000
TOTAL Production	0	36700000	0	37400000	0	39500000
Imports	0	0	0	0	0	0
Exports		104,370		125,250		150,000
TOTAL SUPPLY	0	36595630	0	37274750	0	39350000

Table 4. Tomato Paste PS&D Table

PSD Table						
Country	**China, Peoples Republic of**					
Commodity	**Tomato Paste,28-30% TSS Basis**				(MT)(MT, Net Weight)	
	2007	Revised	2008	Estimate	2009	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		07/2007		07/2008		07/2009
Deliv. To Processors	4600000	6000000	0	6400000	0	7600000
Beginning Stocks	35000	75000	0	77600	0	149400
Production	750000	950000	0	970000	0	1100000
Imports	200	2100	0	1800	0	2000
TOTAL SUPPLY	785200	1027100	0	1049400	0	1251400
Exports	650000	849500	0	750000	0	800000
Domestic Consumption	80000	100000	0	150000	0	180000
Ending Stocks	55200	77600	0	149400	0	271400
TOTAL DISTRIBUTION	785200	1027100	0	1049400	0	1251400